



COMPANY UPDATE

Key Metrics

FPO - NYSE (as of 6/27/2017)	\$11.35
Price Target	NA
52-Week Range	\$8.01 - \$11.46
Shares & Units Outstanding (mm)	61
Market Cap. (\$mm)	\$692
3-Mo. Average Daily Volume (000)	195
Institutional Ownership	96%
Debt/Total Market Capital (3/17)	50.8%
Dividend	\$0.40
Dividend Yield	3.5%
Interest Coverage Ratio	3.65x

Core FFO Per Share FY 12/31

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.24		\$0.23 A	\$0.19	\$0.19
2Q	\$0.27	\$0.21	\$0.21	\$0.20	\$0.20
3Q	\$0.28	\$0.19	\$0.19	\$0.20	\$0.20
4Q	\$0.27	\$0.20	\$0.20	\$0.21	\$0.21
Year	\$1.06	\$0.83	\$0.83	\$0.80	\$0.80
P/Core FFO	10.7x		13.7x		14.2x

Core FFO excludes gains from the early retirement of debt and sale of real estate, acquisition costs, and other one-time charges.

Revenue (\$mm)

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$43		\$38 A	\$34	\$34
2Q	\$38	\$34	\$34	\$34	\$34
3Q	\$40	\$34	\$34	\$35	\$35
4Q	\$39	\$33	\$33	\$35	\$35
Year	\$160	\$138	\$138	\$139	\$139

Quarterly amounts may not add up to full year amounts due to rounding. Previous numbers have not been restated.

Company Description: First Potomac, headquartered in Bethesda, Maryland, is a REIT focused on owning, operating, developing, and redeveloping office and business park properties in the greater Washington, D.C. region.

REITs

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First Potomac Realty Trust

FPO -- NYSE – Neutral -- 3

FPO is being acquired.

- **Merger Agreement.** This morning First Potomac announced it had entered into a definitive merger agreement with Government Properties Income Trust (GOV - \$21.90). GOV will acquire all of the outstanding shares of First Potomac and assume all debt of FPO. The deal is expected to close before year end.
- **Terms of the Agreement.** FPO shareholders will receive \$11.15 in cash per share upon closing. This is a 9.3% premium to FPO’s 30-trading day volume weighted average price ended April 24, 2017, the last trading day before media speculation regarding a potential sale of the company began. However, the deal represents a slight discount to yesterday’s (June 27) closing price.
- **Merger Approval.** The board of FPO has unanimously approved the merger agreement and had recommended approval of the merger by FPO shareholders. The transition is subject to customary closing conditions, including approval by FPO shareholders.
- **We maintain our Neutral rating on FPO.**

**Note Important Disclosures on Pages 3 and 4.
 Note Analyst Certification on Page 3.**

Suitability

We assign shares of First Potomac Realty Investors a suitability rating of 3 on our scale of 1 - 4 (1=most conservative, 4=most aggressive). Our rating is based on the company's lack of property type diversification and large exposure to government related tenants.

Risks & Considerations

Merger Risk - If the merger between FPO and GOV is not completed, or if it takes longer than expected, we believe FPO's stock price could be impacted.

Interest Rate Risk - Like all REITs, FPO is interest rate sensitive. FPO has 64.3% of its debt at variable rates. However, we note that 57.4% of the company's floating rate debt is hedged. In addition, the company's interest coverage ratio of 3.65x appears adequate. We believe FPO should be able to weather an increase in interest expense in a rising rate environment.

Regional Market Risk - FPO's real estate portfolio is predominately in the Maryland, Washington, D.C., Northern Virginia, and Southern Virginia markets. These markets are dependent on U.S. government spending programs, primarily defense spending. The U.S. government is FPO's largest tenant at 14.0% of total annualized rental revenue.

Strategic Plan Risk - We believe the completion of the company's strategic plan should help shareholder value. However, if the plan takes longer than investors expect or if there is a hiccup, the stock price could negatively react. We note the company has made good progress on this plan so far.

SEC Inquiry Risk - FPO has fully remediated its material weakness discussed in its 2011 10-K. However, the SEC has made an informal inquiry related to this. There were legal costs in 1Q13 associated with this inquiry. At this point, we do not know if any additional costs or actions could be taken as a result of this inquiry. Any additional cost or negative actions could impact earnings.

Annual yield is calculated by dividing the distribution amount by the current market price of the security. For US income tax purposes, the Company may classify all or a portion of its distributions as dividends or other non-dividend distributions. Note that for some investors, for US income tax purposes all or a portion of the Company's 2016 dividend or distribution was treated as return of capital and not as "dividend income" as reflected on the IRS Form 1099-Div for the 2016 tax year. The Company generally makes a final determination regarding the proper tax treatment of distributions after calendar year end. We urge each shareholder to consult with his or her own tax advisor to determine the tax consequences of the distributions received, including any state, local or foreign tax considerations.

Additional information is available upon request.

Analyst Certification

I, Carol L. Kemple, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid total returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

Suitability Ratings

1 - A large cap, core holding with a solid history

2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base.



Hilliard Lyons Recommended Issues			Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	34	27%	12%	88%
Hold/Neutral	80	65%	8%	93%
Sell	10	8%	0%	100%

As of 7 June 2017

Other Disclosures

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